First Quarter Update

For the three months ended June 30, 2006



Heritage Fund

06-07

Alberta Heritage Savings Trust Fund

Alberta

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FIRST QUARTER UPDATE
JUNE 30, 2006

Alberta Heritage Savings Trust Fund

QUARTER IN REVIEW

The Alberta Heritage Savings Trust Fund (the Fund) recorded investment income of $172 million this quarter and unrealized capital losses on investments of $493 million. This accounted for the Fund's investment return of negative 2.2% for the first quarter of 2006-07. The negative return results from a decline in world equity markets this quarter following strong gains made last year. The decline in stock markets reduced the fair value of the Fund's investments resulting in unrealized capital losses and negative investment returns. Of the total investment income of $172 million, $71 million is retained in the Fund for inflation proofing while $101 million is included in transfers to the General Revenue Fund (GRF) in accordance with the *Alberta Heritage Savings Trust Fund Act*. Overall, investment income was lower this quarter than the first quarter of last year primarily due to lower net realized gains from sale of securities and derivative transactions. In the first quarter of last year, the Fund reported investment income of $321 million and unrealized capital gains of $95 million for a positive return of 3.4%.

The Canadian stock market, represented by the S&P/TSX Composite Index, declined by 3.5% this quarter. A retreat in commodity related stocks in early May followed by a global sell-off of equities, higher interest rates and a weakening U.S. economy contributed to the decline. However, Canada's economy continues to grow at a healthy pace with relatively low unemployment, inflation and interest rates.

The Canadian dollar increased in value over the quarter. At June 30, 2006, one U.S. dollar purchased $1.12 Canadian compared to $1.17 Canadian at March 31, 2006. As a result, the value of the Heritage Fund's U.S. equity investments decreased when translated into Canadian dollars, resulting in lower investment returns. Over the past three months, the U.S. market measured by the S&P 1500 Index decreased by 1.7% in U.S. dollars and 6.1% when translated into Canadian dollars. In the U.S., interest rates increased and the housing market softened.

The non-North American market measured by the MSCI EAFE Index decreased by 3.8% this quarter in Canadian dollars. However, the global economy continues to grow, led by surging economic activity in Asia and stronger conditions in Japan and Europe.

Major Indices

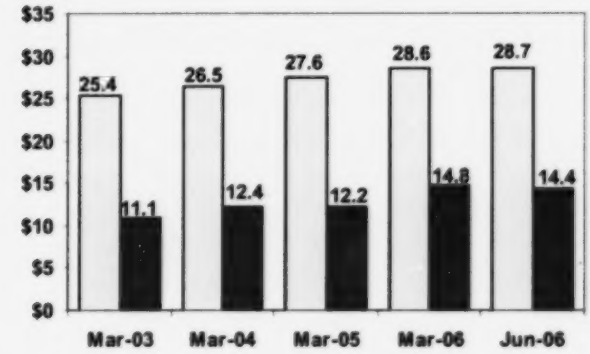
Three months ended June 30, 2006

	First Quarter	
	2006-07	2005-06
Stock Markets		
Canadian		
S&P/TSX Composite Index	(3.5)	3.6
United States		
S&P 1500 Index (US $)	(1.7)	1.7
S&P 1500 Index (Cdn $)	(6.1)	3.1
Non-North American		
MSCI EAFE Index (Cdn $)	(3.8)	0.3
Canadian Bond Market		
SC Bond Universe Index	(1.0)	4.5

Summary of Operations Since 1976

The Fund started in 1976. As disclosed in Note 6 to the financial statements, over the past 30 years, the Fund has received contributions of $13.8 billion from the GRF and earned investment income of $28.5 billion. The Fund has transferred $28.7 billion to the GRF to support spending on health care, education and other services that Albertans value. Transfers to the GRF are net of amounts retained for inflation proofing. The net assets of the Fund represent the difference between the value of assets held by the Fund and its liabilities. At June 30, 2006, the net assets of the Fund totalled $13.6 billion on a cost basis and $14.4 billion on a fair value basis.

Net Assets and Transfers to the GRF since 1976
(billions)



CHANGE IN NET ASSETS

The Fund accounts for its investments and investment income using the cost basis of accounting. Investments and investment income recorded on a cost basis exclude unrealized gains and losses. Investment income on a fair value basis includes unrealized gains and losses during the period. The investment loss on a fair value basis for the three months ended June 30, 2006 was $321 million.

Change in Net Assets (at fair value)
(millions)

	Three Months Ended June 30, 2006	June 30, 2005
Net assets, beginning of period	$ 14,820	$ 12,222
Investment income, cost basis (1)	172	321
Transfers to the GRF (2)	(101)	(264)
Amount retained for inflation proofing	71	57
Unrealized gains (losses)	(493)	95
Net assets, end of period	$ 14,398	$ 12,374

(1) Investment income includes interest, dividends, realized gains and losses, derivative income net of administration expenses.
(2) Section 8(2) of the *Alberta Heritage Savings Trust Fund Act* states that the net income of the Fund, less any amount retained in the Fund to maintain its value, shall be transferred to the GRF.

Summary of Net Assets (at fair value)
(millions)

	June 30, 2006	March 31, 2006
Investments (see Note 3 to F/S)	$ 14,553	$ 15,007
Accrued income and receivables	97	27
Accounts payable	(73)	(136)
Due to the GRF	(179)	(78)
Net assets, end of period	$ 14,398	$ 14,820

INVESTMENT INCOME

The Fund recorded net income of $172 million this quarter. Interest, dividends, real estate income and security lending income totalled $154 million net of administrative expenses, compared to $119 million for the same period last year. Net realized capital gains from sale of securities and derivative transactions totalled $18 million, compared to $202 million for the same period last year.

Net Investment Income (Loss) by Asset Class
(millions)

	Fixed Income	Equity Income	Real Estate	Other (1)	Total
06-07 3 mos.	$ 65	$ 48	$ 23	$ 36	$ 172
05-06	318	951	90	38	1,397
04-05	264	728	68	32	1,092
03-04	304	737	54	38	1,133
02-03	286	(1,224)	39	5	(894)

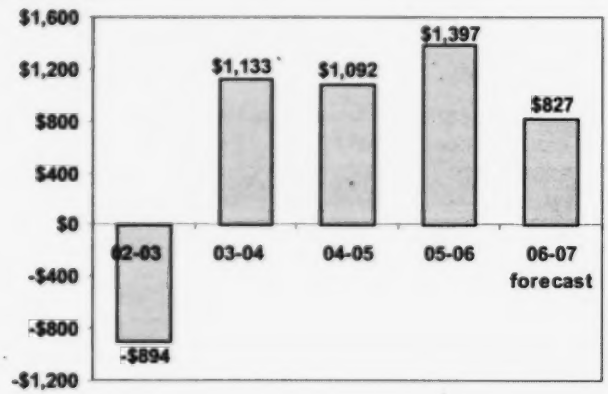
(1) Includes income from private equities, private income, timberland, and absolute return strategies.

2006-07 BUDGET ESTIMATES

Forecast Income

The Fund's original budgeted income for the year totalling $917 million is included in the 2006-07 Government Estimates. Due to the decline in equity markets this quarter, forecast income has been reduced by $90 million to $827 million. On a consolidated basis, after the elimination of income from Alberta provincial corporation securities, the forecast income is $784 million.

Heritage Fund Investment Income
(millions)



Forecast Transfers into the Fund

The 2006-07 Government Estimates provide for $1 billion to be transferred into the Fund from the government's allocated surplus. An additional $250 million is provided for under the *Access to the Future Act* (see Note 6 (a) to the financial statements). These amounts will be recorded when received.

Forecast Inflation Proofing

In order to maintain the value of the Fund, the 2006-07 Government Estimates provided for inflation proofing of the Fund in the amount of $242 million. The inflation proofing forecast was subsequently increased by $41.4 million to $283.4 million due to an increase in the estimate of inflation for the year. Of this amount, $70.8 million has been accrued for the quarter ending June 30, 2006. The net income earned by the Fund, less the amount retained in the Fund for inflation proofing is transferred to the GRF.

TRANSFERS TO THE GRF

At June 30, 2006, the outstanding transfers payable to the GRF increased to $179 million from $78 million at March 31, 2006. The increase of $101 million is comprised of the Fund's income for the quarter less the amount retained in the Fund for inflation proofing.

INVESTMENTS

Asset Mix

The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The policy asset allocation is reported in the Fund's 2006-09 business plan.

The long-term policy asset mix for the Fund consists of fixed income securities (30%), public equities (45%), real estate (10%) and alternative investments (15%). Alternative investments include absolute return strategies, private equities, private income and timberland. These investments are in a relatively illiquid asset class and will require time to build up to their target asset mix.

The actual investment mix for fixed income securities decreased slightly to 32.8% from 33.3% at the beginning of the quarter while public equity investments decreased to 49.5% from 50.6%. Real estate investments increased to 10.3% from 9.6% of the Fund's total investment portfolio. Absolute return strategies increased to 4.1% from 3.8%. Private equity investments increased to 2.0% from 1.7%. Private income investments increased to 0.9% from 0.6%. Timberland investments were unchanged from the beginning of the quarter at 0.4%.

Asset Mix Policy
(percent of fair value)

	Long Term Policy Asset Mix	Actual Asset Mix Jun 06	Actual Asset Mix Mar 06
ASSET CLASS			
Fixed income			
Money market	1.0	0.9	2.0
Fixed income securities	29.0	31.9	31.3
	30.0	**32.8**	**33.3**
Public equities			
Canadian	15.0	16.9	17.0
United States	15.0	16.4	16.8
Non-North American	15.0	16.2	16.8
	45.0	**49.5**	**50.6**
Real estate	**10.0**	**10.3**	**9.6**
Absolute return strategies	**5.0**	**4.1**	**3.8**
Private equities	**4.0**	**2.0**	**1.7**
Private income	**4.0**	**0.9**	**0.6**
Timberland	**2.0**	**0.4**	**0.4**
	100.0	100.0	100.0

Investment Valuation

Investments and investment income are recorded on the financial statements of the Fund at cost in accordance with government accounting policies. The fair value of the Fund and its investments are provided for information purposes. Management uses fair value to assess the investment performance of the fund against market-based benchmarks.

The Fund's policy is to write down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. Based on management's review, writedowns totalling $10.2 million were recorded during the quarter ended June 30, 2006.

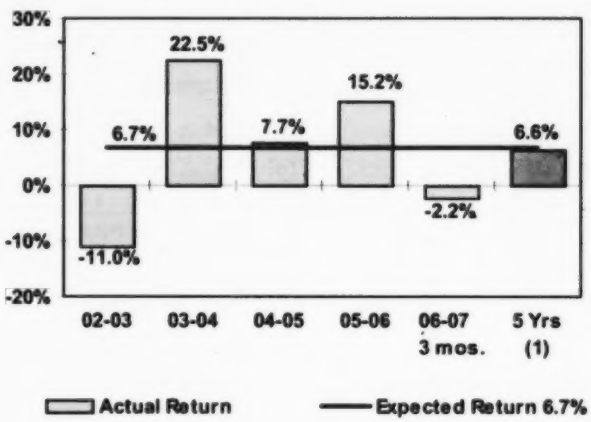
PERFORMANCE MEASUREMENT

Heritage Fund Rate of Return

The Fund posted an overall negative return of 2.2% this quarter, compared to a positive return of 3.4% for the same period last year. The negative return of 2.2% this quarter underperformed the policy benchmark of negative 2.0% by 20 basis points.

The performance of the Fund is measured over the long term. Over the past five-year time period, the Fund generated a nominal annualized return of 6.6% compared to the expected nominal long-term rate of return of 6.7%. The expected nominal annualized return of 6.7% includes the real rate of return of 4.5% plus annualized inflation of 2.2% over a moving five-year period.

Heritage Fund Annual Returns and Annualized 5-Year Returns
(at fair value)



(1) Annualized.

The performance of the Fund's investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to their benchmarks.

Comparison of Actual Returns to Benchmarks
Time Weighted Rates of Return
(percent)

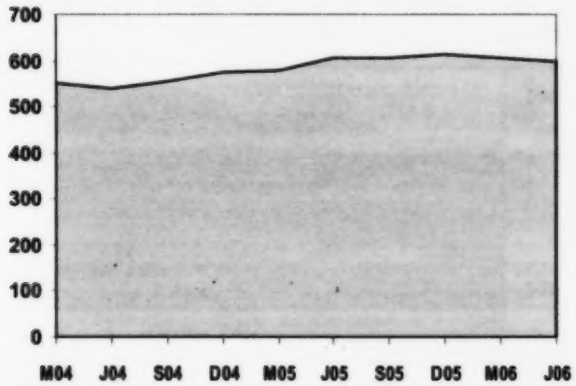
	First Quarter 2006-07	First Quarter 2005-06	Five Years (2)
OVERALL RETURN (1)	**(2.2)**	**3.4**	**6.6**
ENDOWMENT PORTFOLIO			
ST fixed income	**0.8**	**0.7**	**2.9**
SC 91-Day T-Bill	*0.9*	*0.6*	*2.9*
LT fixed income	**(0.9)**	**4.7**	**7.6**
SC Universe Bond Index	*(1.0)*	*4.5*	*6.9*
Canadian public equities	**(3.2)**	**3.6**	**10.7**
S&P/TSX Index	*(3.5)*	*3.6*	*10.5*
US public equities	**(6.2)**	**2.7**	**(3.3)**
S&P 1500 Index (3)	*(6.1)*	*3.1*	*(3.4)*
Non North American equities	**(5.1)**	**1.4**	**4.3**
MSCI EAFE Index	*(3.8)*	*0.3*	*3.4*
Real estate	**4.0**	**4.6**	**12.8**
IPD Large All Property Index (4)	*4.0*	*2.5*	*10.6*
Absolute return strategies	**1.3**	**(0.6)**	**n/a**
HFRX Global Hedged Index (5)	*(0.9)*	*2.4*	*n/a*
Private equities	**3.4**	**7.4**	**n/a**
CPI Plus 8.0%	*3.4*	*2.8*	*n/a*
Private income	**3.1**	**10.9**	**n/a**
CPI plus 6.0%	*3.0*	*2.4*	*n/a*
Timberland	**2.2**	**n/a**	**n/a**
CPI plus 4.0%	*2.5*	*n/a*	*n/a*
Total Endowment Portfolio	**(2.2)**	**3.4**	**6.3**
Policy Benchmark (6)	*(2.0)*	*3.4*	*5.7*

(1) The overall return for five years includes the Endowment Portfolio and the past returns of the Transition Portfolio which was wound up in the first half of 2002-03.
(2) Returns for 5 years are annualized.
(3) Prior to April 1, 2004, the benchmark for U.S. equities was the S&P500 Index.
(4) Benchmark returns are estimated and may vary significantly from actual amounts when received. Prior to June 1, 2005, the benchmark for real estate was CPI plus 5%. Prior to April 1, 2002, the benchmark was the Russell Canadian Property Index.
(5) Prior to July 1, 2005, the benchmark return was the CPI plus 6%.
(6) Policy benchmark returns are the product of the weighted average policy sector weights and the sector benchmark returns.

Fixed Income Investments

The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past quarter, the SC Universe Bond Index decreased by 1.0% while the short term SC 91-Day T-Bill Index increased by 0.9%.

SC Universe Bond Index



LT Fixed Income	Actual Return %	Benchmark SC Universe Bond Index %	Over (Under) bps*
Current Quarter	(0.9)	(1.0)	10
Five Years (annualized)	7.6	6.9	70

ST Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Over (Under) bps*
Current Quarter	0.8	0.9	(10)
Five Years (annualized)	2.9	2.9	0

* one basis point equals 0.01%.

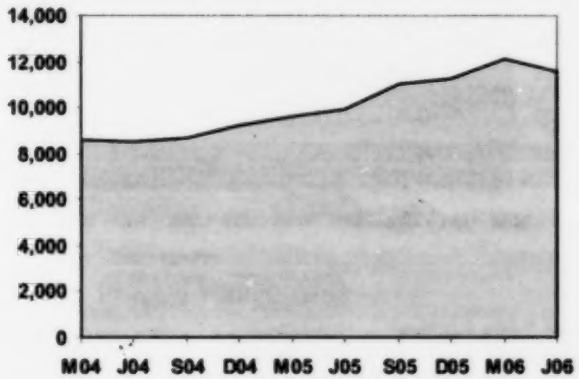
The Fund's actual rate of return over the quarter from long-term Canadian fixed income securities was negative 0.9%, 10 basis points better than the benchmark SC Universe Bond Index. Over five years, the return from long-term fixed income securities was 7.6% or 70 basis points better than the benchmark of 6.9%. The Fund's return from short-term securities was 0.8% and 2.9% over three months and five years respectively. The Fund's fixed income portfolio is internally managed through various pools and through direct holdings.

At June 30, 2006, investments in deposits, bonds, notes, short-term paper, provincial corporation debentures and loans totalled 32.8% of total portfolio investments or $4.768 billion compared to 33.3% or $4.993 billion at March 31, 2006.

Canadian Equity Investments

The Toronto Stock Exchange S&P/TSX Composite Index, which measures the performance of Canada's top companies, declined by 3.5% for the quarter ending June 30, 2006.

S&P / TSX Composite Index



Canadian Public Equities	Actual Return %	Benchmark S&P/TSX Index %	Over (Under) bps
Current Quarter	(3.2)	(3.5)	30
Five Years (annualized)	10.7	10.5	20

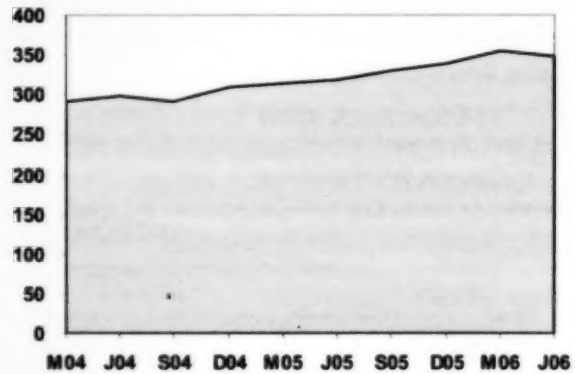
The Fund's Canadian equity portfolio is held in various investment pools, which are managed by internal and external managers. Over the quarter, the Fund's actual return from Canadian equities declined by 3.2%, 30 basis points better than the benchmark return from the S&P/TSX Index. Over five years, the Fund's return from Canadian equities was 10.7%, 20 basis points better than the benchmark return of 10.5%.

At June 30, 2006, investments in Canadian public equities totalled 16.9% or $2.490 billion of the Fund investment portfolio compared to 17.0% or $2.572 billion at March 31, 2006.

United States Equity Investments

The U.S. equity market closed out the quarter posting a negative return. The Standard & Poor's 1500 Index (S&P 1500), which measures the performance of the top 1,500 American companies, decreased by 1.7% in U.S. dollars and 6.1% in Canadian dollars.

S&P 1500 Index



US Public Equities	Actual Return %	Benchmark S&P 1500 Index* %	Over (Under) bps
Current Quarter	(6.2)	(6.1)	(10)
Five Years (annualized)	(3.3)	(3.4)	10

* Effective April 1, 2004, the benchmark return for U.S. equities changed to the S&P 1500 Index from the S&P 500 Index. The S&P 1500 Index provides a broader coverage of U.S. equities to include smaller capitalization stocks. The S&P 1500 Index covers approximately 90% of U.S. publicly traded equities.

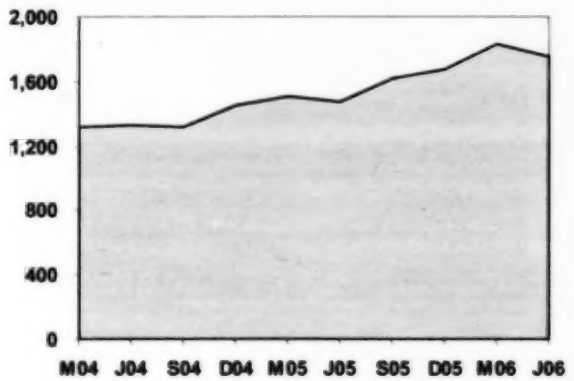
The Fund's actual rate of return over the quarter from U.S. equities was negative 6.2% in Canadian dollars, or 10 basis points less than the S&P 1500 Index. As a result of the stronger Canadian dollar, the value of U.S. equity investments decreases when translated into Canadian dollars, resulting in lower investment returns. Over five years, the Fund's U.S. equity portfolio returned negative 3.3%, 10 basis points better than the benchmark.

At June 30, 2006, investments in U.S. equities totalled 16.4% or $2.368 billion of the Fund investment portfolio compared to 16.8% or $2.513 billion at March 31, 2006.

Non-North American Equity Investments

The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE Index), measures the performance of approximately 1,200 companies on 25 stock exchanges around the world. Over the quarter, the index declined by 3.8% in Canadian dollars.

MSCI EAFE Index



EAFE Public Equities	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under) bps
Current Quarter	(5.1)	(3.8)	(130)
Five Years (annualized)	4.3	3.4	90

The Fund's actual return from non-North American equities was negative 5.1%, 130 basis points less than the MSCI EAFE Index. Over five years, the Fund's non-North American equity portfolio returned 4.3%, 90 basis points better than the benchmark MSCI EAFE Index.

At June 30, 2006, investments in non-North American equities totalled 16.2% or $2.361 billion of the Fund investment portfolio compared to 16.8% or $2.520 billion at March 31, 2006.

Real Estate Investments

The Fund's real estate investments are held in the internally managed Private Real Estate Pool and the Foreign Private Real Estate Pool. Real estate investments earned 4.0% over the quarter and 12.8% over five years.

Real estate	Actual Return %	Benchmark IPD Large Institutional All Property Index* %	Over (Under) bps
Current Quarter	4.0	4.0	0
Five Years (annualized)	12.8	10.6	220

* Amounts shown are estimated and may vary significantly from actual amounts when received. Prior to June 1, 2005, the benchmark for real estate was CPI plus 5%. Prior to April 1, 2002, the benchmark was the Russell Canadian Property Index.

Approximately 51% of the real estate portfolio is invested in office, 33% in retail, 11% in industrial and 5% residential. Approximately 61% of the real estate holdings are located in Ontario, 28% in Alberta, 9% in Quebec and 2% in British Columbia.

At June 30, 2006, investments in real estate totalled 10.3% or $1.486 billion of the Fund investment portfolio compared to 9.6% or $1.441 billion at March 31, 2006.

Absolute Return Strategies

Absolute return strategy investments encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Over the quarter, absolute return strategies generated a positive return of 1.3%, 220 basis points more than the benchmark Hedge Fund Research Inc. (HFRX) Global Hedged Index.

Absolute Return Strategies	Actual Return %	Benchmark HFRX Global Hedged Index %	Over (Under) bps
Current Quarter	1.3	(0.9)	220
Five Years (annualized)	n/a	n/a	-

At June 30, 2006, investments in absolute return strategies totalled 4.1% or $604 million of total Fund investments compared to 3.8% or $572 million at March 31, 2006.

Private Equity Investments

At June 30, 2006, the private equities comprised 2.0% or $288 million of the Fund's total investment portfolio compared to 1.7% or $258 million at March 31, 2006.

During the quarter, private equity investments returned 3.4%, the same as the benchmark Consumer Price Index plus 8%.

Private Equity	Actual Return %	Benchmark CPI plus 8% %	Over (Under) bps
Current Quarter	3.4	3.4	0
Five Years (annualized)	n/a	n/a	-

Private Income Investments

Private income investments comprised 0.9% or $134 million of overall investments compared to 0.6% or $82 million at March 31, 2006. Private income investments returned 3.1% this quarter, 10 basis points better than the benchmark Consumer Price Index plus 6%.

Private Income	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
Current Quarter	3.1	3.0	10
Five Years (annualized)	n/a	n/a	-

Timberland Investments

Timberland investments comprise 0.4% or $54 million of overall investments compared to 0.4% or $56 million at March 31, 2006. Timberland investments returned 2.2% this quarter, 30 basis points less than the benchmark Consumer Price Index plus 4%.

Timberland	Actual Return %	Benchmark CPI plus 4% %	Over (Under) bps
Current Quarter	2.2	2.5	(30)
Five Years (annualized)	n/a	n/a	-

ADMINISTRATIVE EXPENSES

Internal management expenses and external management fees are deducted directly from the income earned by pooled investment funds. Internal expenses include expenses recovered by Alberta Finance for management of the Fund and investment pools. External fees include fees charged to investment pools by external investment managers based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools.

The Fund's total administrative expenses for the quarter, including amounts deducted from the investment income of the pooled funds, amounted to $11.9 million or 0.08% of the Fund's net assets at fair value compared to $10.4 million or 0.08% of net assets the previous quarter.

Administrative Expense Breakdown

Three months ended June 30, 2006 (thousands)

	Three Months Ended	
	June 30, 2006	June 30, 2005
Direct fund expenses	$ 650	$ 612
Internally managed investment pools	1,189	1,126
	1,839	1,738
Externally managed investment pools	10,094	8,629
Total	$ 11,933	$ 10,367
Expenses as a percent of net assets at fair value	0.083%	0.084%

Internal expenses increased by $0.101 million compared to the same period last year. External fees increased by $1.465 million compared to the same period last year. The increase in external manager fees is primarily due to the increases in the fair value of investments.

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

JUNE 30, 2006

(unaudited)

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STATEMENT OF FINANCIAL POSITION

June 30, 2006 (unaudited)
(thousands)

	June 30, 2006	March 31, 2006
Assets		
Portfolio investments (Note 3)	$ 13,719,683	$ 13,681,630
Accrued investment income	26,291	26,433
Receivable from sale of investments	71,070	-
Administration expense receivable	-	22
	$ 13,817,044	$ 13,708,085
Liabilities		
Accounts payable	$ 72,670	$ 135,842
Due to the General Revenue Fund	178,969	77,684
	251,639	213,526
Net Assets (Note 6)	13,565,405	13,494,559
	$ 13,817,044	$ 13,708,085

STATEMENT OF OPERATIONS AND NET ASSETS

For the Three Months ended June 30, 2006 (unaudited)
(thousands)

	Three Months Ended June 30, 2006	2005
Net income (Note 7)	$ 172,131	$ 321,044
Transfers to the General Revenue Fund (Note 6a)	(101,285)	(264,493)
Amount retained for inflation proofing (Note 6a)	70,846	56,551
Net Assets at beginning of period	13,494,559	11,362,442
Net Assets at end of period	$ 13,565,405	$ 11,418,993

The accompanying notes and schedules are part of these financial statements.

STATEMENT OF CASH FLOWS

For the Three Months ended June 30, 2006 (unaudited)
(thousands)

	Three Months Ended June 30, 2006	2005
Operating transactions		
Net income	$ 172,131	$ 321,044
Non-cash items included in net income	(17,657)	(63,252)
	154,474	257,792
(Increase) decrease in accounts receivable	(70,906)	31
(Decrease) increase in accounts payable	(63,172)	11,848
Cash provided by operating transactions	20,396	269,671
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	221,800	330,268
Purchase of investments	(423,928)	(601,192)
Cash applied to investing transactions	(202,128)	(270,924)
Transfers		
Transfers to the General Revenue Fund	(101,285)	(264,493)
Increase in amounts due to the General Revenue Fund	101,285	264,493
Cash provided by (applied to) transfers	-	-
Decrease in cash	(181,732)	(1,253)
Cash at beginning of period	229,020	71,359
Cash at end of period	$ 47,288	$ 70,106
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 47,288	$ 70,106

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

June 30, 2006 (unaudited)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act* (the Act), Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Fixed-income securities, public and private equities, real estate, absolute return strategies, timberland and private income investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expenses from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

(unaudited)

Note 2 (continued)

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to aet.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments. The fair values of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(iv) The fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(unaudited)

Note 2 (continued)

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency is translated at the period-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

(unaudited)

NOTE 3 PORTFOLIO INVESTMENTS

	June 30, 2006			March 31, 2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	(thousands)					
Fixed-Income Securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 47,288	$ 47,288	0.3	$ 229,020	$ 229,020	1.5
Canadian Dollar Public Bond Pool (b)	3,946,828	3,872,588	26.6	3,877,585	3,888,854	25.9
Private Mortgage Pool (c)	582,538	577,091	4.0	584,319	591,638	3.9
Provincial corporation debentures, directly held (d)	62,217	85,671	0.6	80,927	113,925	0.8
Loans, directly held (e)	102,264	102,264	0.7	102,219	102,219	0.7
Currency Alpha Pool (f)	24,922	26,089	0.2	16,751	17,209	0.1
Tactical Asset Pool (g)	56,789	56,912	0.4	28,921	27,947	0.2
Bonds, notes & short-term paper, directly held	-	-	-	22,315	22,358	0.2
	4,822,846	**4,767,903**	**32.8**	**4,942,057**	**4,993,170**	**33.3**
Public Equities						
Canadian						
Domestic Passive Equity Pooled Fund (h)	950,873	1,021,494	7.0	1,032,351	1,131,293	7.5
Canadian Pooled Equity Fund (i)	509,943	642,382	4.4	493,715	666,827	4.4
Canadian Equity Enhanced Index Pool (j)	291,264	324,098	2.2	278,441	332,581	2.2
Canadian Large Cap Equity Pool (k)	241,567	225,139	1.5	230,719	231,602	1.5
Growing Equity Income Pool (l)	120,153	145,991	1.0	106,187	150,261	1.0
Canadian Multi-Cap Pool (m)	266,120	266,366	1.8	203,525	205,931	1.4
Tactical Asset Pool Canadian futures contracts (g)	(134,992)	(134,992)	(1.0)	(146,080)	(146,080)	(1.0)
	2,244,928	**2,490,478**	**16.9**	**2,198,858**	**2,572,415**	**17.0**
United States						
S&P 500 Index Fund (n)	1,420,240	1,534,777	10.6	1,472,667	1,629,524	10.9
US Small/Mid Cap Equity Pool (o)	271,133	279,833	1.9	266,559	307,170	2.1
Portable Alpha United States Equity Pool (p)	390,270	374,737	2.6	386,366	382,057	2.5
Growing Equity Income Pool (l)	49,152	45,429	0.3	47,759	46,552	0.3
Tactical Asset Pool US futures contracts (g)	133,365	133,365	1.0	147,487	147,487	1.0
	2,264,160	**2,368,141**	**16.4**	**2,320,838**	**2,512,790**	**16.8**
Non-North American						
EAFE Active Equity Pool (q)	1,646,676	1,735,123	11.9	1,615,625	1,867,616	12.4
EAFE Passive Equity Pool (r)	172,930	229,064	1.6	169,033	238,566	1.6
Emerging Markets Equity Pool (s)	125,339	145,184	1.0	116,466	159,782	1.1
EAFE Structured Equity Pool (r)	259,540	251,283	1.7	264,167	253,781	1.7
	2,204,485	**2,360,654**	**16.2**	**2,165,291**	**2,519,745**	**16.8**
Real Estate						
Private Real Estate Pool (t)	1,072,089	1,448,140	10.0	1,055,710	1,396,862	9.3
Foreign Private Real Estate Pool (u)	39,280	37,552	0.3	44,916	44,042	0.3
	1,111,369	**1,485,692**	**10.3**	**1,100,626**	**1,440,904**	**9.6**
Absolute Return Strategies (v)	**619,434**	**604,010**	**4.1**	**569,151**	**571,720**	**3.8**
Private Equities (w)	**259,707**	**287,567**	**2.0**	**243,179**	**258,322**	**1.7**
Private Income (w)	**132,856**	**133,682**	**0.9**	**81,688**	**81,948**	**0.6**
Timberland (x)	**59,898**	**54,448**	**0.4**	**59,942**	**56,454**	**0.4**
Total Investments (y)	**$ 13,719,683**	**$ 14,552,575**	**100.0**	**$ 13,681,630**	**$ 15,007,468**	**100.0**

(unaudited)

Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at June 30, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	June 30, 2006	March 31, 2006
Absolute Return Strategy Pool	88.2	88.5
Canadian Dollar Public Bond Pool	39.8	40.2
Canadian Equity Enhanced Index Pool	26.0	25.8
Canadian Large Cap Equity Pool	12.9	12.6
Canadian Multi-Cap Pool	55.6	56.9
Canadian Pooled Equity Fund	54.7	54.5
Currency Alpha Pool	37.2	28.9
Domestic Passive Equity Pooled Fund	43.3	42.3
EAFE Active Equity Pool	31.2	31.7
EAFE Passive Equity Pool	76.5	76.5
EAFE Structured Equity Pool	24.8	24.0
Emerging Markets Equity Pool	26.7	26.4
Foreign Private Equity Pool (02)	43.8	43.8
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	87.1	87.1
Growing Equity Income Pool	56.5	55.8
Portable Alpha United States Equity Pool	87.5	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	62.1
Private Equity Pool (04)	77.0	77.0
Private Income Pool	25.7	25.7
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	43.4	43.4
Private Real Estate Pool	37.1	37.1
Standard & Poor's 500 Index Fund	71.0	71.8
Tactical Asset Allocation Pool	83.7	86.7
Timberland Pool	87.6	87.6
US Small/Mid Cap Equity Pool	25.1	25.2

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at June 30, 2006, securities held by the Fund have an average effective market yield of 4.40% per annum (March 31, 2006: 3.96% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at June 30, 2006, securities held by the Pool have an average effective market yield of 5.13% per annum (March 31, 2006: 4.7% per annum)

(unaudited)

Note 3 (continued)

and the following term structure based on principal amount: under 1 year: 2% (March 31, 2006: 2%); 1 to 5 years: 37% (March 31, 2006: 34%); 5 to 10 years: 31% (March 31, 2006: 33%); 10 to 20 years: 11% (March 31, 2006: 12%); and over 20 years: 19% (March 31, 2006: 19%).

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.3%) and provincial bond residuals (5.7%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at June 30, 2006, securities held by the Pool have an average effective market yield of 5.53% per annum (March 31, 2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 5% (March 31, 2006: 2%); 1 to 5 years: 18% (March 31, 2006: 19%); 5 to 10 years: 50% (March 31, 2006: 50%); 10 to 20 years: 8% (March 31, 2006: 10%); and over 20 years: 19% (March 31, 2006: 19%).

(d) As at June 30, 2006, Provincial corporation debentures have an average effective market yield of 8.42% per annum (March 31, 2006: 8.00% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100% (March 31, 2006: 100%).

(e) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at June 30, 2006, investment in loans, at cost, include the Ridley Grain loan amounting to $100,000 (March 31, 2006: $100,000) and the Vencap loan amounting to $2,264 (March 31, 2006: $2,219).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $100,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at June 30, 2006 amounted to $90,161 (March 31, 2006: $90,161). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(f) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(g) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At June 30, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(unaudited)

Note 3 (continued)

(h) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(i) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(j) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(k) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(m) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (h)).

(n) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (h)).

(o) The U.S. Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(unaudited)

Note 3 (continued)

(p) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(q) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(r) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (h)).

(s) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(t) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(u) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(v) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(w) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool invests in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(x) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

(unaudited)

Note 3 (continued)

(y) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at June 30, 2006:

	Maturity			June 30, 2006		March 31, 2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				(thousands)			
Equity index swap contracts	79%	21%	-	$ 2,566,972	$ (41,002)	$ 2,460,014	$ 45,423
Interest rate swap contracts	18%	51%	31%	1,044,785	266	1,053,569	(2,391)
Forward foreign exchange contracts	100%	-	-	2,052,507	12,047	1,554,419	(1,980)
Cross-currency interest rate swaps	16%	31%	53%	766,183	72,308	711,678	52,051
Credit default swap contracts	1%	17%	82%	756,840	1,477	1,298,187	2,984
Bond index swap contracts	100%	-	-	305,021	10,584	236,998	24,470
Equity index futures contracts	100%	-	-	999,780	20,790	782,574	15,652
				$ 8,492,088	$ 76,470	$ 8,097,439	$ 136,209

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

(unaudited)

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2006-2009 Business Plan proposed the following asset mix policy for the Fund.

Public equities	45.0%
Fixed income securities	30.0%
Real estate	10.0%
Absolute return strategies	5.0%
Private equities	4.0%
Private income	4.0%
Timberland	2.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

(unaudited)

NOTE 6 NET ASSETS

Net assets represent the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers from (to) the General Revenue Fund (GRF) since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	June 30, 2006	March 31, 2006
	(thousands)	
Transfers from the General Revenue Fund		
Resource Revenue (1976-1987)	$ 12,049,324	$ 12,049,324
Access to the Future (a)	750,000	750,000
Voted Payments (b)	1,000,000	1,000,000
	13,799,324	13,799,324
Accumulated net income	28,493,723	28,321,592
Transfers to General Revenue Fund (c)		
Section 8(2) transfers		
Income	(26,125,353)	(25,953,222)
Amount Retained for Inflation-proofing	883,599	812,753
	(25,241,754)	(25,140,469)
Capital Expenditures (1976-1995) (d)	(3,485,888)	(3,485,888)
	(28,727,642)	(28,626,357)
Net Assets, at cost	**$ 13,565,405**	**$ 13,494,559**
Net Assets, at fair value	**$ 14,398,297**	**$ 14,820,397**

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund. The Fund received $750 million in December 2005.

(b) The Fund received $1 billion from the GRF on March 20, 2006 under the *Appropriation (Supplementary Supply) Act, 2006.*

(c) In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act (the Act), transfers to the GRF for the quarter total $101 million. The Act states that the net income of the Heritage Fund, totalling $172 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $71 million, shall be transferred to the GRF annually in a manner determined by the Minister of Finance. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund at the beginning of the year by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the period.

(d) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research Endowment Fund in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

(unaudited)

NOTE 7 NET INCOME

	Three Months Ended June 30, 2006	2005
	(thousands)	
Deposit and fixed-income securities	$ 65,054	$ 75,971
Canadian equities	32,900	101,301
United States equities	(55,790)	22,378
Non-North American equities	71,694	98,116
Real estate	22,653	19,272
Absolute return strategies	25,575	(4,475)
Private equities	4,316	4,056
Private income	3,196	5,034
Timberland	3,183	3
Investment income	**172,781**	**321,656**
Direct administrative expenses (Note 8)	(650)	(612)
Net income	**$ 172,131**	**$ 321,044**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the three months ended June 30, 2006 includes writedowns totalling $10,172 (June 30, 2005: $1,595).

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	Three Months Ended June 30, 2006	2005 (restated)
	(thousands)	
Direct fund expense (Note 7)	$ 650	$ 612
External management fees	10,094	8,629
Internal management expenses	1,189	1,126
Total	$ 11,933	$ 10,367
Percent of net assets at fair value	0.083%	0.084%

(unaudited)

NOTE 9 INVESTMENT PERFORMANCE

The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	Three Month Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	-2.2%	6.6%
Benchmark return (1)(2)	-2.0%	6.7%

(1) The overall benchmark return for the three months ended June 30, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

(2) The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 2.2%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.7%.

NOTE 10 COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to June 30, 2006 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

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